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SUBJECT: SENATE PASSES RUDD'S ECONOMIC RESCUE PACKAGE

11. (U) SUMMARY: On February 13, the Senate passed the Rudd government's \$42 billion economic stimulus package, a day after rejecting it. The key factor was the government upping the cash for projects favored by independent South Australian Senator Nick Xenophon, whose no vote was crucial to the initial defeat of the legislation. Despite altering the bills to satisfy Xenophon, the fundamentals of the package have not changed. The Coalition again voted against the stimulus, arguing that it was too expensive, not properly targeted and should have included broader tax relief. Business - desperate for a shot in the arm - generally lined up behind the Government. Rudd accused the Coalition of voting against jobs and nation building. END SUMMARY.

THE DAY BEFORE

12. (U) On February 12, the Senate, in a tied vote rejected the Rudd government's economic stimulus package, with the Coalition and independent South Australian Senator Nick Xenophon voting against it. The five Greens Senators and Family First Senator Steven Fielding, whom obtained concessions, voted for the legislation, but Xenophon was upset the government did not go as far as he wanted in bringing forward funding and providing new money for the Murray-Darling river system - a big issue in South Australia. Following the vote, the government turned up the heat on the Coalition, accusing it of voting against jobs and nation building. Opposition Leader Malcolm Turnbull claimed the package imposed enormous debt on future generations, and would not create jobs. Business groups expressed disappointment with the Australian Chamber of Commerce and Industry calling on the Coalition and Xenophon "to reconsider their decision." The Senate voted to sit the next day to try and pass the stimulus.

"SHOW ME THE MONEY"

13. (U) The following day, after negotiations with Treasurer Wayne Swan and Water Minister Penny Wong, Xenophon announced he would vote for the stimulus after the government agreed to bring forward \$1 billion in funding for the Murray-Darling, as well as provide \$900 million in new money for water buybacks, re-engineering works and stormwater recycling. The Greens had earlier obtained \$400 million for job creation projects, environmental initiatives, and help for the unemployed and low income earners. This was funded by reducing the tax bonus payments in the package from \$950 to \$900 - also a Greens' proposal. Senator Fielding had negotiated \$200 million for a pilot job creation scheme.

14. (SBU) COMMENT: Political commentators, business groups and the public are each broadly in favor of the stimulus. However, now that it has passed the Senate, the Rudd government's "ownership" of the economy increases. Given that the stimulus drives the Government into debt, and will only slow the rise in unemployment, Rudd could find himself on politically uncomfortable ground. Xenophon is a big winner - he has delivered on one of the biggest political

issues in South Australia, getting virtually everything he wanted. The Greens again have shown they are willing to engage constructively with the Rudd government, and have displayed fiscal responsibility by not increasing the cost of the legislation. The Coalition has made its strongest stand since it lost government - on its traditional strength of economic management.

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